

LEASING A CAR



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INTRODUCTION

When shopping for a car, one choice is whether to lease or buy. The number of new car leases is rapidly increasing. Before deciding to lease a car, it is important to ask questions, nail down the details, read the fine print, and shop around. This handout provides helpful information for those who may be thinking about leasing their next new car.

LEASING vs. BUYING

Leasing a car is not the same as buying one. If you buy a car, you own it. With a lease, you are paying to drive someone else's car. One advantage of a lease is that it may result in lower monthly payments than a loan. However, at the end of the lease you will have no ownership interest or equity in the car.

SOME HELPFUL HINTS

1. *Shop as if you are buying a car*

Be sure to negotiate all of the lease terms, including the price of the car. A lower lease price means lower monthly payments. Additionally, be sure to get all of the lease terms in writing.

2. *Know the terminology*

With a CLOSED-END LEASE, you return the car at the end of the lease period and walk away. However, you will probably still be responsible for certain end-of-lease charges, such as excess mileage, wear and tear, and disposition.

With an OPEN-END LEASE, you will pay the difference between the value of the car stated in your contract and the lessor's appraised value at the end of the lease.

LEASE INCEPTION FEES are payments that must be made at the beginning of the lease. These may include a down payment, security deposit, acquisition fee, first month's payment, taxes and title fees. Be sure to ask for a list of these charges. Also, keep in mind that some or all of the terms related to these charges may be negotiable.

The term CAPITALIZED COST means the price of the car for leasing purposes, plus taxes and extra charges such as service contracts and registration fees.

CAPITALIZED COST REDUCTION is like a down payment. If you trade in a car, make sure the dealer applies the trade-in value to the price upon which your lease is based. The credit from your

trade may reduce your down payment or monthly payment.

3. Find out what extra charges may be assessed

You may be charged extra for excessive mileage, wear and tear, disposition, and early termination of the lease. Most leases allow for driving 12,000 to 15,000 miles per year. If you put on extra miles, expect a charge of 10-25 cents per additional mile.

You should also find out what the penalties are for returning the car early. You should expect to pay a substantial charge if you give up the car before the end of the lease. It is also important to note that the lease may prohibit your taking the car out of the United States. This means that military members who receive PCS orders to an overseas assignment may be forced to turn the car back in and pay a substantial early termination penalty.

4. Consider where you will be required to return the car at the end of the lease

Upon termination of the lease, you may be required to return the car to the dealer who originally leased it to you. This may be extremely inconvenient if, for example, you lease a car in Idaho and are later stationed on the east coast.

5. Look at the manufacturer's warranty

Make sure the warranty covers the entire term of the lease and the number of miles you expect to drive.

6. Consider "gap insurance"

"Gap insurance" is designed to cover the difference between what you owe on the lease and what the car may be worth if it is stolen or totaled in an accident. The difference can sometimes amount to thousands of dollars.

7. Review the contract before signing

Before signing on the dotted line, take a copy of the contract home, away from dealer pressure, and carefully review it. Look for charges that were not disclosed at the dealership, such as conveyance, disposition, or preparation fees. It is also a good idea to have an experienced friend, supervisor, or attorney review the contract.

MANDATORY DISCLOSURES

Federal law requires lessors to provide lease cost information to you before you sign the lease. Be sure to ask for this information if it is not offered to you by the dealer.

***This handout is general in nature. It is not a substitute for legal advice from an attorney regarding individual situations. (August 2021)**

For additional information on this and other legal topics, see the Air Force Legal Assistance Website: <https://aflegalassistance.law.af.mil>